PN-ABG-036

SOCIAL SAFETY NET PROGRAMS

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Summary

Social safety net programs have been undertaken by developing country governments to garner political support for economic policy reform as well as to mitigate perceived adverse impacts of structural adjustment programs on the poor. CDIE's review of social safety net programs supported by the World Bank and USAID indicates that many of these programs have not been effective, in part because they have been poorly designed, often based on insufficient analysis of the effects of structural adjustment and the likely results of compensatory actions taken. Caution should be exercised in undertaking compensatory social safety net programs first by determining whether they are necessary and, if so, by carefully assessing which population groups need assistance, what types of interventions would best serve needy groups in the longer term, and which implementing agency or agencies to use.

Background

Although it has long been recognized that structural reform measures are often required to establish a climate conducive to economic growth in developing countries, both LDC governments and donors have been concerned that especially the poor have been hurt by these economic adjustment measures. Of particular concern have been the possible adverse impacts of: 1) exchange rate reform on population groups that rely on imported foods and other products, 2) curtailment or reduction of government bureaucracies on fired public servants, and 3) curtailment of government budgets on the provision of health, nutrition, and education services or subsidies to the poor. Reacting to such concerns, LDC governments and donors, including USAID, have supported programs to mitigate possible adverse impacts on the poor. Such programs are generally referred to as compensatory “social safety net” programs.

Recent research has produced substantial evidence that, by and large, the poor are not hurt by adjustment; rather, the poor are likely to suffer more from the postponement of reforms. Nonetheless, interest in compensatory social safety net programs has not abated. Thus, USAID will continue to be faced with decisions regarding the financing of such efforts in the future.

Since the Agency has supported compensatory social safety net programs in many of the countries in which it has promoted economic structural reforms, CDIE commissioned two analyses—both conducted by David S. Kingsbury of Development Alternatives Incorporated (DAI)—to explore the experience with such programs. The first study reviewed 28 World Bank-led projects (many of which received USAID funding) and focused on case studies in Bolivia, Ghana, Mexico, and Senegal. The second concentrated on USAID experience as the lead or sole donor for programs in Madagascar, Mali, and Tunisia. The two studies, *Compensatory Social Programs and Structural Adjustment: A Review of Experience* and *Programs for Mitigating Adverse Social Impacts During Adjustment: The USAID Experience*, provide the basis for this summary.

Findings

! **Three broad types of compensatory programs identified:**

  - Employment generation and public works: includes credit projects, job training, severance pay plans, agricultural resettlement, and construction.

  - Publicly provided social services for the most vulnerable: includes provision of medical, health extension, and education services through nongovernmental organizations and local governments.

  - Improved targeting of existing social services programs: includes school and preschool feeding programs and subsidies for food and other commodities.

! **Programs frequently poorly designed, with scant attention to opportunity costs.** With few exceptions, project designers and decision-makers have neglected to consider the implications of adjustment measures for the poor and other vulnerable groups or the impact of reform on income distribution. Moreover, "compensatory" safety net programs often have been no more than a repackaging of existing programs to meet a political imperative.

! **Credit programs for retrenched workers fraught with problems.** Targeted credit programs have tended to be poorly run, underutilized, ineffective, and expensive. Some programs suffered from cronyism, with heavily subsidized loans granted as political favors. Moreover, because of unfavorable macroeconomic environments, they often failed to induce commercial banks to participate.

! **Severance payment schemes for former public employees evidence twofold benefits.** Severance payments for workers laid off as a result of public sector downsizing may, under some circumstances, stimulate small-scale entrepreneurial activity in addition to providing a safety net for displaced workers. This occurred in Mali, for example, where departing civil servants used lump sum payments to start up or invest in businesses.

! **Public works programs show limited success.** Emergency public works programs have provided jobs for displaced workers in the short term. In some cases, they have also added to or improved the country's infrastructure. Nonetheless, their potential to provide alternative jobs or job skills for the long term has probably been overestimated.

! **Training programs are less cost/benefit effective.** Training programs for displaced workers have often experienced low levels of participation, and they have been management intensive, irrelevant to employer needs, and costly.

! **Institutional capabilities important to successful program implementation.** Governments and donors need to take a hard look at the capabilities of existing institutions to implement short-run social safety net programs cost-effectively and in a timely manner. If an institution's programs have been run poorly before the reform, there is little reason to believe the new programs will be any more effectively or equitably run.

Recommendations

! **Exercise caution in funding compensatory social programs.** To determine the appropriateness of supporting a compensatory program, weigh the following factors:

- Nature of the adjustment and reform programs being pursued or considered by the host country;

- Income and resource distribution effects of the reforms among social groups and across geographic regions;

- Financial and human resource capabilities of the local governments and the USAID Mission to carry out the safety net programs; and

- Political, administrative, and economic feasibility of proposed programs.

! **Approach assessment in phases.** In considering the above factors, Missions may want to assess sequentially the needs, the adequacy of existing social programs, and the capabilities of the institutions responsible for implementing them.

! **Determine which socioeconomic groups in the country are most likely to be hurt** by the reforms and which of them should be helped through compensatory measures.

! **Identify the interventions that are appropriate to provide redress for adversely affected groups.** If the problems are transitory, short-term interventions such as relief programs, labor-intensive public works, and severance pay may be the quickest and most effective activities for reaching the target groups. However, if the problems are likely to be persistent, then longer-term interventions that can be sustained after donor projects end are necessary. Such interventions should focus on education, health, and infrastructure creation.

! **Consider the feasibility of potential interventions.** This analysis would deal with such questions as: Does the developing country have the administrative capacity to identify appropriate target groups? Can its government choose the right targeting strategy without running into crippling opposition? What is the country's record in implementing similar programs? What is the opportunity cost of running such programs given the resource-strapped condition of the majority of developing countries?

! **Avoid programs that cut across sectors** and involve a multiplicity of agencies. They commonly fail.

! **Favor lump-sum severance payments as an effective option for streamlining the public sector.** This may be particularly appropriate in countries where moonlighting by public sector employees is common and there is a large informal economy. Choose carefully the job categories to be included in severance pay programs to avoid reducing social services in critical areas and losing key skills. To track the progress of businesses created as well as identify the elements that contribute to their survival or failure, governments and Missions should incorporate monitoring plans into the design of severance programs.